



1914

U. S. SECURITIES GOVERNMENT FINANCE AND RESERVE BANK ORGANIZATION

NEW YORK, NOVEMBER, 1914.

A Long War.

THE progress of the war does not point to an early termination. The idea that the effectiveness of modern weapons and the costly scale of operations would force an early peace, has been generally abandoned. The experience of the last two months indicates that the defense behind entrenchments is so much stronger than the attack, that forces of approximately equal strength can make little headway against each other. Limiting our view to the present area of most active warfare, if any army upon the defensive is able to hold its ground, the prospect is for a war to exhaustion. Exhaustion is a long way off for any of the combatants.

Reorganization of the World's Trade.

The first effect of the war was a profound shock to industry and credit. But a shock wears off, and people soon accept even a state of war as a matter of course and adjust their affairs accordingly. Within the warring countries there must be a new distribution of labor, to allow for men in the army and the new conditions of trade and consumption, and there must be a similar readjustment of trade between other countries. In the long run imports and exports practically offset each other, so that even a great country may be cut out of the world's trade, and when the other countries are connected up, and their industries reorganized in relation to each other, trade will go on in balance as before. This is not to minimize the difficulty and cost of reorganization, or to intimate that the whole world is not loser when the best energies of several great nations are turned from science and industry to war. It is evident that progress toward a new state of order is being made. The British moratorium will end on November 4th, the French moratorium has been modified, and moratoria elsewhere have either expired or will expire soon. International trade is increasing, with indications that even Germany is exporting and importing considerable quantities of goods, through neutral ports. War insurance rates remain high, and are in themselves a heavy tax upon trade. The United States war insurance bureau has taken risks amounting to between \$5,000,000 and \$6,000,000, at rates varying from one-half per cent. to five per cent., according to routes traveled, the danger from mines being the most important factor. Seventy-five ships of about 300,000 tons capacity have been transferred to the American flag under the new registry law.

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British Emergency Policies.

Mention was made last month of the energetic and courageous policies pursued by both the British and German governments to support the banking and business situation. Because of London's position as an international money market, and the great foreign trade of England, the situation there was more complicated than elsewhere. The British ministry has undertaken to overcome the shock to credit by putting the credit of the government behind each essential factor in the financial and industrial system, until confidence is regained and the system able to go along as before. Mention was made last month of the action of the government in assuming, through the Bank of England, all pre-moratorium bills having maturity in England. These appear to have amounted to something like \$500,000,000. The government has gone further and, to facilitate business, has arranged with the joint stock banks and the Bank of England to likewise guarantee all post-moratorium trade bills accepted by well-established houses. It is understood, furthermore, that when arrangements are completed to open the London stock exchange the government will assume a part of the risk upon all loans secured by listed securities with the understanding that there will be no pressure from the banks for the sale of securities. And if private creditors call for the payment of loans secured by stock exchange collateral the banks will take over these loans. The Courts by act of Parliament, are given full power to stay all bankruptcy proceedings or executions where it is shown that the debtor's failure to pay arises out of war conditions.

A Change in the Constitution of the Bank of England.

Amid these innovations a permanent and noteworthy change in the constitution of the Bank of England has passed almost unnoticed. Above a fiduciary issue of notes, amounting to approximately \$90,000,000, based on public debt, all notes, under the terms of the bank charter, have had to be secured by an equal amount of gold. Three times since 1844, to meet great emergencies, the ministry has requested the Bank to ignore this restriction and issue additional notes upon credit, promising each time to ask Parliament to pass a special indemnity act, which afterward was done. This time, Parliament being in session, an act was passed duly permitting the Bank to issue additional notes, temporarily, without regard to its gold reserve when-

ever authorized to do so by the Treasury. It will not, therefore, in the future, be necessary to go to Parliament for an indemnity act in each such case, and it is possible that this may result in a more frequent resort to such relief.

Notwithstanding the act of Parliament, the Bank in this instance has not exceeded the charter limit, the issue of Treasury notes having answered the same purpose. Nor has the Bank suspended gold payments, which, except for the bank holiday of four days, have been made as usual. The foreign exchanges have been in favor of London constantly since the crisis came on, which verifies the predictions of those who have claimed that on account of England's position as a creditor country it requires a smaller gold reserve than any other country. England has so large an income from investments abroad that it has only to cease making investments outside to throw the exchanges in its favor.

German War Credit Provisions.

The German government has gone even further than the British in providing general credit, and by this means has avoided a moratorium. Credit offices were opened in all parts of the country through the agency of the Imperial Bank, for the issue to all comers of loans against security, in amounts varying with the character of the security from 40% up to 70% of its value. The total amount of credit authorized for this purpose was approximately \$375,000,000, but only about \$100,000,000 has been used. The credit is extended in the form of government notes, which are accepted for all government dues, but are not a legal tender between individuals. They are, however, received by the banks and are interchangeable with the notes of the Imperial Bank, which are a legal tender. The Bank has not paid gold since August 1st, but the notes have had free currency without depreciation in domestic transactions, and the foreign exchanges have been only slightly unfavorable until lately. German exchange, for the last two weeks, has been falling in outside markets, indicating that the country was importing more than it was exporting. If this continues its importations will cost more, and ultimately it will have to borrow abroad, sell foreign holdings or give up gold. The stock of gold in the Imperial Bank has increased considerably since the war began, evidently from gold that had been in circulation. The Bank has been pursuing a very liberal policy toward all business interests in the matter of credits on a six per cent. basis.

The Power of Organization.

These countries have been able, by the agency of their centralized banking systems, to sustain the business community and furnish an ample supply of credit under the most trying circumstances. The strength of such an organization is in knowing its own power and being able to plan a comprehensive policy; it dares to extend itself because it has the resources of the country behind it and has assurance that it can carry its policies through. On the other hand in the United States in a crisis the individual banker has naturally felt that what he could

do would have but negligible effect upon the general situation, and that therefore the best he could do was to take care of his own institution.

The comments of Vice-Chancellor Delbruck, of Germany, upon the effectiveness of the German industrial organization are very interesting, for they show the agencies by which Germany has accomplished the wonderful expansion in her foreign trade, and the character of competition our business men must ultimately expect to meet in the markets of the world. He is quoted as saying:

"I had a talk with gentlemen representing the control of the sugar industry, and in 15 minutes we had settled all the questions affecting it. I met other men, and we quickly settled the textile and chemical industries. I met representatives of all the agricultural organizations, and in an hour we had settled all questions pertaining to the food supply. Germany, as no other country, is centralized industrially as well as economically, giving us an organization which makes us unconquerable economically and industrially."

Business in the United States.

Affairs in this country are moving in an orderly manner toward recovery. The banks in the central cities have restored their legal reserves, money is easier, fears of a financial crisis have disappeared, the foreign trade situation is better, a pool to lend money on cotton has been agreed upon, and the new banking system is nearer to doing business. These are all important gains over the situation of two and three months ago.

Trade is light, and judging by the bank clearings, still declining, and the increasing ease in the financial situation is largely due to the relaxation of the demand for credit. There is a general suspension of new undertakings, which in a growing country like the United States are a great factor in the business situation. The crops move, and there is the usual buying for consumption, but constructive work requiring capital is not taken up. Naturally there will not be much capital for new enterprises while old, well-known securities can be bought at present prices. The industries dependent upon constructive work, such as steel, lumber, cement, etc., are very slack, and of course there is a great deal of unemployment.

The grain and meat-producing sections are experiencing great prosperity, and the purchases of horses, mules, automobiles and other war equipment and supplies by foreign governments are assuming large proportions.

The Federal Reserve banking system, when in operation, will release a large sum in bank reserves, which should contribute to financial ease, and thus aid in handling the cotton crop and in the efforts at trade extension in other countries. It is not to be expected that bankers will feel free at once to use these new reserves to the limit. They have been accustomed to regard these reserves as necessary to conservative banking and may want to become familiar with the workings of the new system before relying upon it for prompt support.

The period of three per cent. interest on the Aldrich-Vreeland currency will begin to expire in November upon a large volume of issues, and the banks will probably want to retire them. The opening of the Federal Reserve banks will facilitate such

retirement. These banks can take all of these notes, and give the redemption bureau at Washington time to handle them without embarrassment.

The Foreign Exchange Situation.

Exchange on London has pursued an erratic course during the past month, reaching $\$4.98\frac{1}{2}$ as high mark and touching $\$4.89\frac{1}{2}$ on its decline last week. The break in the rates was due in part to an increasing volume of exchange created by our exports, and in part no doubt to the newspaper reports of negotiations at Washington with representatives of the British Treasury, the object of which is to avert further gold shipments and restore rates to a normal basis.

The exchange situation has been abnormal since the outbreak of the war and the high rates have not been fairly significant of relations between New York and London, but rather of a world situation.

The current indebtedness of the United States at the beginning of hostilities was quite large, but not out of keeping with the international trade relations between the two countries. The outbreak of the war, however, created a world-wide demand for exchange on London, because of London's position as a creditor to other countries. As a result the banking centers of Europe, South America and elsewhere were hunting for sterling exchange and seeking to convert their credits everywhere into sterling. With moratoria declared almost all over the world, the United States was about the only country in which debts could be collected, and all countries have been trying to use their credits here to pay London. Under ordinary conditions New York would have offsets against these demands but the moratoria has made them unavailable. In other words, the United States has been called upon to pay one side of a running account, not alone with Great Britain, but with the whole world.

It is, of course, necessary to bear in mind in discussing the exchange situation in terms of aggregates that the aggregates are made up of many independent transactions between individuals. One set of individuals in France are owing debts in the United States, and another set of individuals in France are creditors to a different set of individuals in the United States. In ordinary times the bankers are able to offset these claims, international finance is conducted upon the expectation that such offsets will be made, and confusion is unavoidable when the clearing system breaks down.

The gold pool has not been very active in its operations, because it has acted upon the principle of making its stock of gold go as far as possible. The policy has been to supply gold for payments that must be made, but where arrangements, satisfactory to foreign creditors, to avoid immediate remittance have been practicable, they have been made. The high rate of exchange in itself has encouraged this course.

These obligations, as already said, are owing by individuals, companies and corporations, and it should not be understood that they are in default or that the situation is threatening. Credits running into the millions of dollars have been accumulated in the New York banks to pay them, and in

many instances, by the direction of creditors, payment has been made into New York banks for the credit of foreign bankers. Where payments are due abroad, it is the duty of the debtor to stand the cost of transmittal, and to meet his obligation on time unless he can arrange for an extension. Where the payment is due on this side, as in the case of securities sold on the New York stock exchange, the creditor receives his money here and the question of when and how to convert it into foreign funds is for him to decide.

The Cotton Situation.

The latest development in the cotton situation is the organization of the much talked of pool of some $\$135,000,000$ to be loaned against cotton stored in warehouses. This pool practically contemplates the provision of $\$100,000,000$ for this purpose, which amount is to be supplied by banks from other than the cotton producing states. The remaining $\$35,000,000$ is to be provided by the southern states but it will no doubt represent loans which have already been made and are now carried in the portfolios of the various banks of that section. The contributions of the northern banks will be represented by "Class A" certificates which shall have preference over the "Class B" certificates which it is proposed to issue to southern banks. This virtually forms a guarantee on the part of the southern bankers against advances made by northern bankers, which is not unreasonable as the former are making the loans. It is further intended that a fund equalling 3% of the amounts loaned shall be created by contributions from the various banks through whom the loans are made or shall be provided out of the money realized from the discount of the paper. This fund is to constitute an insurance and expense fund. From it shall be deducted all losses that may accrue and all the legitimate expenses to which the pool may be put. It is estimated that losses will prove negligible and that the expenses will not exceed $\frac{1}{4}$ of 1% of the amount loaned. No doubt the plan will be availed of in many sections and there is no question but that its sentimental effect upon the market will be gratifying.

It now appears probable that some time during the coming month, probably the forepart, the New York Cotton Exchange will be re-opened for business. There is good reason to believe that the opening of the Cotton Exchange will have even a more beneficial effect upon producing a market for cotton than the formation of the pool above referred to. Financial arrangements have been about completed, providing all necessary funds for the safe reopening of the New York Cotton Exchange, and the opinion is expressed in many quarters that like action will be taken by the New Orleans and Liverpool Exchanges at or near the same time.

The demand for cotton continues poor. It must be borne in mind that for sales to be made someone willing to buy and someone willing to sell must get together. There is no way to gauge the real value, nor will there be until the sentiment of the market expresses itself through the medium of the Exchange. It is gratifying to note that in many quarters it is believed the consumption of the Eng-

lish mills will be much larger than heretofore anticipated, and since the declaration by the British government that cotton in neutral ships on its way to belligerent countries will not be molested, it is certain that Germany will take a considerable amount for home consumption.

Service of Cotton Exchanges.

It would not appear, from the many articles published relative to the cotton situation, that the importance of the Cotton Exchanges in creating a market for that staple is fully realized, least of all by the people of the South. It might not be amiss to explain in a general way to what extent the Cotton Exchanges enter into the daily marketing of cotton. Throughout the cotton producing states, at every point where the receipts aggregate any considerable amount, there are offices of cotton merchants or buyers, as they are more generally termed. As a rule these buyers are continually in the market for all the cotton hauled in, irrespective of the grades. It must not be supposed that every bale bought off the wagons or from the sample tables of the merchants or factors has been sold to spinners, for such is ordinarily not the case. Nor is it to be supposed the buyer purchases cotton to hold at his own risk of fluctuations for sales he may be able to consummate later on. The Cotton Exchange offers a medium by which actual cotton can always be purchased in any quantities and the possibility of loss on the part of the purchaser, owing to market fluctuations, minimized to such an extent as to make the risk negligible. The market for spot cotton is at practically all times governed by the future market and the prices paid by the cotton buyer to the producer, or the merchant, or the factor, are, of course, plus a reasonable profit, those at which he can in turn sell contracts for an equal number of bales for delivery in some certain month or months. Such transactions are termed "hedges" and constitute an actual necessity if the business is to be conducted on a safe basis. The cotton buyer selling these contracts can, if he chooses, hold his cotton until the month of delivery and tender it in fulfillment of his contract, but should he, in the meantime, find a purchaser for all or any part of his stock, he will immediately buy in his future contracts to a like extent, thus cancelling same, and in due course, according to the terms of the contract entered into with the spinner, make his shipment. Thus it will be seen a cotton buyer may do business with an assurance of a profit, no matter how wide the fluctuations of the cotton market or how slack the demand from spinners may be. Likewise, a spinner making contracts ahead for the delivery of certain lines of his products, knowing exactly how many bales of cotton are needed to fulfill the requirements of such sales, is enabled to purchase contracts for delivery of such an amount of cotton in such month or months as his needs require and thus permit him, without hesitation, to take care of all the business offered with the assurance that his supply of raw material will cost him in proper proportion to the prices at which the goods are sold. At the proper time the spinner may call for the fulfillment of his contract or he may buy the actual

cotton from a dealer or cotton buyer, and in turn cancel out by selling his contract on the Cotton Exchange to the end that no matter how wide the fluctuations in the prices of the actual cotton he is always protected, and is always in position to take care of business offered.

Again the spinner, that he may be assured of an ample supply of actual cotton of the proper grades and length of staple the class of goods he manufactures requires, is enabled to purchase, if need be, a full season's requirements at the prevailing market price at such time as such cotton is the more easily obtainable without laying himself liable to loss by reason of market fluctuations, by simultaneously selling contracts, through the medium of the Cotton Exchanges, for the delivery of a like number of bales at some future month or months. When he makes actual sales to his customers, thus obviating the necessity of further protection, he may buy in such contracts, in proper proportion, thereby cancelling the trades.

Perhaps if the advantages to the trade offered by the Cotton Exchanges in stabilizing the cotton business were better realized by the people in general and more particularly in the South, the prejudice against them, which has so often manifested itself, would be less violent and tend only toward such features of the system as may possibly be open to criticism.

Clayton Anti-Trust Act.

Last month this bulletin gave quite fully the terms of the Trade Commission act which was approved by the President September 26th, and of the Clayton bill, which has since been approved.

These measures were debated at great length in both Houses of the Congress, by able lawyers, and the consensus of opinion seems to have been that they modify, and in some respects render more elastic, the provisions of the Sherman act, while providing means for dealing with a class of offenses which have been rather too intangible or illusive to be attacked under that act. The Sherman act remains in full force and effect and may be resorted to, as the heavy artillery, to break up great monopolies, but the most vigorous opposition to the two bills was based upon the assumption that the Sherman law would be neglected and fall into disuse. The friends of the Commission idea seemed to accept this view, holding that the Commission by its activities would prevent the development of monopolies.

The Clayton act covers ground already in large part covered by previous legislation, but it contains certain specific prohibitions not enforceable under either the Sherman or the Trade Commission acts. One of these is against tying-contracts, which has the effect of qualifying existing rights under the patent laws, another is against interlocking directorates, and a third is against holding companies. While opinions differ as to the need of these inhibitions, the business world will doubtless adjust itself readily to them without any very marked effects.

This act provides that nothing in the anti-trust laws shall be construed to forbid members of labor

organizations or farmers' organizations, instituted for purposes of mutual help and without a capital, from "lawfully carrying out the legitimate objects thereof; nor shall such organizations or the members thereof be held or construed to be illegal combinations or conspiracies in restraint of trade."

There was much debate over this section and the contention of its friends was that it did nothing more than recognize that such organizations were not in themselves illegal combinations. It has never been seriously contended that they were, but that theory has been occasionally advanced in public addresses. Ex-President Taft, who while in the presidential chair strenuously opposed all exceptions to the operations of the Sherman law, accepts this view of the new provision.

The Clayton act also deals at length with the subject of injunctive proceedings in labor disputes. After reviewing the changes that are effected, Ex-President Taft, in his address as President of the American Bar Association, summed the results as follows:

"All these provisions have been called the charter of liberty of labor. We have seen that the changes from existing law they make are not at all radical and that most of them are declaratory merely of what would be law without the statute. This is a useful statute in definitely regulating procedure in injunctions and in express definition of what may be done in labor disputes. But what I fear is that when the statute is construed by the courts, it will keep the promise of the labor leaders to the ear, and break it to the hope, of the ranks of labor. This will be an additional reason for blaming and attacking the courts. It is really a shifting of responsibility from Congress to the judicial branch of the government that has had to bear so many of such burdens, conceived in political timidity of legislators. However this may be, I think we should be profoundly grateful that the impairment of the authority of our federal courts has been but small when compared with the very drastic and dangerous changes which were pressed and proclaimed as certain."

The Shipping Trust Decision.

Within the last month another decision interpreting the Sherman law has been rendered which finding authority in the so-called "rule of reason" enunciated by the Supreme Court in the Standard Oil and Tobacco cases, seems to give it more extended application. The case is that of the "United States vs. Hamburg-American Steamship Line and others," and the offense charged was that of maintaining a combination governing the transportation of steerage passengers. The opinion is by Judge Lacombe of the United States Circuit Court, the full court concurring.

Judge Lacombe begins his opinion in the steamship case by referring to his own well-known opinion in the Tobacco case, in which he took an extreme view of the scope of the law. In that opinion he said:

"Size is not made the test; Two individuals who have been driving rival express wagons between villages in two contiguous states, who enter into a combination to join forces and operate a single line, restrain an existing competition."

The Supreme Court in the Standard Oil and Tobacco cases did not go so far as this. There has been much controversy over its use of the words "unreasonable" and "undue," and Justice Harlan

in a concurring opinion criticized the language of the court as judicial legislation. Ex-President Taft in defending the view of the Court has held that the words "unreasonable" and "undue" did not apply to the manner in which a monopoly exercised its powers but simply in the interpretation of ordinary acts and contracts which might incidentally restrain trade.

In the shipping decision Judge Lacombe refers to the Standard Oil and Tobacco opinions as having been given since his opinion above quoted, and says that their "effect would seem to be that contracts and methods of business which do in fact restrain or interfere with competition are not to be held obnoxious to the provisions of the act unless such restraint or interference is 'unreasonable' or 'undue.'"

He finds that the steamship companies were in a combination as to steerage traffic which amounted to a pool, but says:

"The testimony (which is voluminous) fails to satisfy us that the defendants, or any of them, have charged excessive or exorbitant rates for the transportation of passengers, of any class, especially when it is considered that vastly more in the way of safety, speed, sanitary conditions, physical comfort, etc., is now given to the passenger than was given to him before these agreements and conferences were entered into."

The court refers to an investigation conducted by the Committee on Merchant Marine and Fisheries of the House of Representatives, and concludes that

"in view of the peculiarities of ocean transportation the method adopted by the defendants,—if purged of its obnoxious features, the "fighting ship,—is a reasonable one, which so far from restraining trade really fosters and protects it by giving it a stability which ensures more satisfactory public service for all concerned. Without this method or something like it there would be, in the language of the Committee, one or other of two results: 'the lines would either engage in rate wars which would mean the elimination of the weak and the survival of the strong, or to avoid a costly struggle they would consolidate through common ownership;—either would mean a monopoly fully as effective and it is believed more so, than can exist by virtue of (this) agreement.'"

As it is stated that this case will be taken to the Supreme Court, the public will await with deepest interest the ruling of that tribunal with respect to the soundness of Judge Lacombe's ruling.

Panama Canal and the Rail Routes.

The opening of the Panama Canal has been contemplated so long that it might be supposed that the influence of the new water way upon rail traffic and upon trade relations would be quite accurately discounted before a ship went over the route, but this seems not to have been the case; at any rate it now appears that the influence of the canal has been generally underestimated. Men prominent in the handling of transcontinental freight are surprised over the volume of freight being handled. The Canal opened for business on August 15th and since that time 49 ships, having a capacity varying from 6,000 to 12,000 tons have been engaged in handling freight through it to the Pacific Coast.

It appears that from as far west as Ohio and Indiana, freight is now moving in considerable volume by way of New York and the canal to Pacific

Coast points. A shipment of 15,000 tons of wrought iron pipe from Youngstown, Ohio, to San Francisco is instanced. The all rail price for freight is 65c per cwt.; by way of New York and the canal the freight costs 48c. 18c of this is consumed in charges from Youngstown, Ohio, to New York, and the balance, 30c, from New York to San Francisco via canal. Canned corn from the Indiana canneries is also being shipped to the Pacific Coast in large quantities by this route. Cast iron pipe from Alabama is being similarly shipped via New Orleans. The passage between New York and San Francisco is being made in about twenty days, which compares favorably with the ordinary movement by rail.

The development of this traffic will depend largely upon the attitude of the Inter-State Commerce Commission. The roads have already asked authority to make rates from the sea competition zone to Pacific ports low enough to compete with the rates charged by the way of the canal without, however, reducing rates in the intermountain country from intervening territory.

It will be seen that this revives the old question involved in what has been known as the Spokane case, wherein the intermountain cities won a part at least of their contentions. The position of the roads is that they cannot afford to meet the competition of the canal on through business if they are obliged to make corresponding reductions to intermediate points; they would rather surrender the through business to the Canal. But if they choose the latter alternative the situation of the intermediate points will be no better than if the railways are allowed to meet the canal competition.

The question is larger than one of railway revenues only. Under the rail rates now in force traffic from the interior cities, such as Pittsburgh, Chicago and St. Louis, to the Pacific coast is heavily handicapped as compared with traffic originating on the Atlantic coast. The advantage to the latter is so great as possibly to determine the location of factories and thus contribute to the industrial development of the coasts at the expense of the interior. The territory east of the Missouri river is now covered by blanket rates, and under the petition filed by the railway companies all of the cities in this territory would participate in any reduction granted to Atlantic coast cities on through rates.

Reopening of the Five Per Cent Rate Case.

On the face of things it may appear remarkable that while one group of railways is before the Inter-State Commission asking permission to reduce transcontinental rates, another group, which includes the former roads, is before the Commission asking permission to make a general advance of rates; but this situation illustrates some of the difficulties under which the companies are laboring.

The attorneys who have been employed by various interests and by the Commission itself to present the other side of the case are contending that the conditions occasioned by the war in themselves make an increase of freight rates inadvisable at this time; the business of the country, they say, is not

in condition to pay higher freight charges, and the owners of railway shares should be content to suffer their share of the losses incidental to war. Criticism is directed at the companies for asking leave to increase rates without first reducing their own dividends.

This may be plausible, but it is simply balancing the interests of railway owners against the apparent interests of the shippers, as though that was all there was to the issue, when in fact the important question is what will happen to the public if railway credit is impaired, railway expansion is checked, railway facilities fall behind the needs of the country, and foreign holders unload their securities upon the market.

All the legislation for the regulation of railways is based upon the fact that the railway service is something more than a private business. It is a public business, and the public has a much greater interest in good service than railway owners have in good rates. It will cost the public vastly more to have the railway service deteriorate than to pay for improving it, and it cannot be improved or maintained without a continual, voluntary, flow of new capital into railway securities.

It is a fundamental mistake to assume that it is of no more consequence that the railway business shall be remunerated than it is that this and that individual business, which might be affected by an increase of rates, shall be spared. If the government was to take over all of the railways and all of the industries and business establishments of the country as they stand today, assuming wise administration, it would probably close many poorly located and illy-equipped establishments, and at the same time put enough new capital into the railways to bring them up to the highest standard of efficiency. That would be economy for the industries of the country as a whole.

Opening of the Federal Reserve Banks.

The following is the official statement of the Secretary of the Treasury announcing November 16, 1914, as the day determined by him for the actual beginning of the new banking system:

"The Federal Reserve Act imposes upon the Secretary of the Treasury the duty of announcing 'in such manner as he may elect the establishment of a Federal Reserve Bank in any district.' In the discharge of that duty I have determined to announce on the 16th day of November, 1914, the establishment of the Federal Reserve Banks in all the Federal Reserve districts. On that date the new reserve requirements for national banks, as prescribed by the act, will become operative.

"I am impelled to this decision particularly because of the emergent conditions in the South and the confident belief that the prompt opening of the reserve banks will be very helpful to the cotton situation and to general business in all sections of the country.

"This conclusion has been reached after a thorough discussion with my associates on the Federal Reserve Board, who are co-operating cordially with me, and also after full consideration of the views expressed by the directors of the Federal Reserve Banks at their recent conference in Washington with the Federal Reserve Board.

"I am fully aware of the physical difficulties that must be overcome to set the reserve banks in motion on the 16th of November, but the directors of these banks represent the highest degree of American banking ability, and I am sure that not only can they meet the situation but

that they will cheerfully take up the task in the same fine spirit of public service which animated their discussions at the Washington conference.

"As the result of the enactment of the war revenue measure the parity between receipts and disbursements of the Treasury will soon be happily restored. This will make it possible for the Treasury to render still greater service than it has already rendered in helping the financial situation in the South, and in other parts of the country where the need has appeared.

"The prompt opening of the Federal Reserve Banks will make the assistance of the Treasury doubly powerful because the Federal Reserve Act authorizes the Secretary of the Treasury, in his discretion, to deposit a large amount of the moneys held in the "general fund" in the Federal Reserve Banks, and to require such banks to act as fiscal agents of the United States; and also, in his discretion, to deposit the revenues of the government, or any part thereof, in the Reserve banks, and to make disbursements by checks drawn against such deposits.

"Under the present system the Secretary of the Treasury cannot with prudence scatter the 'general fund' of the Treasury among the great number of widely separated national banks throughout the country. Up to the present time I have gone as far in that direction as I have felt that it was wise to go, but with the larger powers conferred by the Federal Reserve Act and the use which I may be able to make of the Federal Reserve Banks as fiscal agents of the government it will be prudent and wise to deposit a large amount of the 'general fund' of the Treasury in the Federal Reserve Banks.

"As soon therefore as the Reserve Banks are in operation I shall transfer to them as large an amount of government funds as possible. This will in turn enable them to extend enlarged credits to national banks and state banks which may become members of the Federal Reserve system, which they in turn may extend to their customers. By this means and through the agency of the Federal Reserve Banks I hope to give additional assistance to that already given by the Treasury Department to the cotton producers, the cotton industry, and the business men of the South.

"The new reserve requirements which will become operative on November 16, upon the opening of the Federal Reserve Banks, will release more than \$400,000,000 of reserve money and largely increase the credit facilities of the banks of the country."

First Meeting of Federal Reserve Directors.

The first meeting of Federal Reserve Directors was held in Washington on October 20, at which time it was announced by the Secretary of the Treasury that, "It was the hope of the Board that the system would be put in operation at the earliest possible date, and the opinion had been expressed that by Monday, November 16, the Reserve Bank could open (by which time the Federal Reserve Notes were promised for delivery), not to perform all their functions, but to undertake at least some of them. No elaborate system was expected at the moment of opening, but it would be necessary to prepare to receive reserve deposits from the banks and to have rediscount machinery ready for such part of the reserve as would be paid in by the banks.

The directors present at the meeting in Washington, voting on the question of the time for opening the banks, decided by a vote of 37 to 35 in favor of November 30, 1914, but, as above stated, the Secretary of the Treasury, acting under authority conferred on him by the Act has fixed November 16, 1914, instead of November 30th.

Under date of October 26 assessment was made upon all member banks to pay into their respective Federal Reserve Banks on November 2, as a contribution to the capital of the latter, an amount equal to one per cent. of each member bank's capital and

surplus. This assessment covers one-sixth of the total contribution toward capitalization of the Federal Reserve Banks which member banks may be called on to pay; three per cent. must be paid in and the remaining three per cent. may or may not be called, as the Federal Reserve Board shall determine.

A uniform system of accounting has already been adopted by nine out of the twelve Federal Reserve Banks, while two others have practically determined in favor of such a system; and it is expected that the remaining Federal Reserve Bank will have acquiesced in its adoption before the opening of the banks on November 16.

All reserves required by the Federal Reserve Act to be kept by member banks with Federal Reserve Banks must be transferred to such Federal Reserve Banks on the day of opening, November 16, 1914. In other words, the provisions of the Act relative to reserves will in all respects become effective on that date.

All legislation looking to further amendments to the Federal Reserve Act failed of passage at the session of Congress ended October 24th. It was expected that the Aldrich-Vreeland Act, as amended by the Federal Reserve Act, with reference to the amount of commercial paper against which additional circulation could be issued, would be further amended so as to increase from 30% to 100% of a bank's capital and surplus the amount of additional circulation it might issue, but the Senate at the last moment failed to act on this measure, although it had previously passed an amendment authorizing an increase of from 30% to 75%.

Governors of Federal Reserve Banks.

The following are the governors of the twelve Federal Reserve Banks:

- Dist. No. 1. Boston—Alfred L. Aiken,
No. 2. New York—Benjamin Strong, Jr.,
No. 3. Philadelphia—Charles J. Rhoads,
No. 4. Cleveland—E. R. Fancher,
No. 5. Richmond—George J. Seay,
No. 6. Atlanta—Joseph A. McCord,
No. 7. Chicago—James B. McDougal,
No. 8. St. Louis—Rolla Wells,
No. 9. Minneapolis—Theodore Wold,
No. 10. Kansas City—Charles M. Sawyer,
No. 11. Dallas—Oscar Wells,
No. 12. San Francisco—Archibald Kains,

Directors of Federal Reserve Banks.

The Federal Reserve Banks, twelve in number, will be under the immediate management of Boards of Directors, classified as follows:

BOSTON: District No. 1:

CLASS "C"

Frederic H. Curtiss, Boston, Federal Reserve Agent and Chairman of Board of Directors.
Walter S. Hackney, Providence, R. I., Deputy Federal Reserve Agent and Vice-Chairman of Board of Directors.
Allen Hollis, Concord, N. H., Director.

CLASS "A"

Thomas P. Beal, Boston, Mass.....Group No. 1
C. G. Sanford, Bridgeport, Ct.....Group No. 2
A. M. Heard, Manchester, N. H.....Group No. 3

CLASS "B"

Charles A. Morss, Boston, Mass.....Group No. 1
E. R. Morse, Proctor, Vt.....Group No. 2
Charles G. Washburn, Worcester, Mass.,
Group No. 3

NEW YORK: District No. 2:

CLASS "C"

Pierre Jay, New York City, Federal Reserve Agent and Chairman of Board of Directors.

Charles Starek, New York City, Deputy Federal Reserve Agent and Vice-Chairman of Board of Directors.

George F. Peabody, Lake George, N. Y., Director.

CLASS "A"

William Woodward, New York, N. Y., Group No. 1

Robert H. Treman, Ithaca, N. Y., Group No. 2

Franklin D. Locke, Buffalo, N. Y., Group No. 3

CLASS "B"

H. R. Towne, New York, N. Y., Group No. 1

William B. Thompson, Yonkers, N. Y., Group No. 2

Leslie R. Palmer, Croton-on-Hudson, N. Y., Group No. 3

PHILADELPHIA: District No. 3:

CLASS "C"

Richard L. Austin, Philadelphia, Federal Reserve Agent and Chairman of Board of Directors.

George M. LaMonte, Deputy Federal Reserve Agent and Vice-Chairman of Board of Directors, Bound Brook, N. J.

George W. Norris, Philadelphia, Director.

CLASS "A"

Charles J. Rhoads, Philadelphia, Pa., Group No. 1

W. H. Peck, Scranton, Pa., Group No. 2

M. J. Murphy, Scranton, Pa., Group No. 3

CLASS "B"

Alba B. Johnson, Philadelphia, Pa., Group No. 1

Edwin S. Stuart, Philadelphia, Pa., Group No. 2

George W. F. Gaunt, Mullica Hill, N. J., Group No. 3

CLEVELAND: District No. 4:

CLASS "C"

D. C. Wills, Bellevue, Pa., Federal Reserve Agent and Chairman of Board of Directors.

Lyman H. Treadway, Cleveland, Ohio, Deputy Federal Reserve Agent and Vice-Chairman of Board of Directors.

H. P. Wolfe, Columbus, Ohio, Director.

CLASS "A"

Robert Wardrop, Pittsburgh, Pa., Group No. 1

W. S. Rowe, Cincinnati, Ohio, Group No. 2

S. B. Rankin, South Charleston, Ohio, Group No. 3

CLASS "B"

Thomas A. Combs, Lexington, Ky., Group No. 1

C. H. Bagley, Corry, Pa., Group No. 2

A. B. Patrick, Salyerville, Ky., Group No. 3

RICHMOND: District No. 5:

CLASS "C"

William Ingle, Baltimore, Federal Reserve Agent and Chairman of Board of Directors.

James A. Moncure, Richmond, Deputy Federal Reserve Agent and Vice-Chairman of Board of Directors.

M. F. H. Gouverneur, Wilmington, N. C., Director.

CLASS "A"

Waldo Newcomer, Baltimore, Md., Group No. 1

John F. Bruton, Wilson, N. C., Group No. 2

Edwin Mann, Bluefield, W. Va., Group No. 3

CLASS "B"

George J. Seay, Richmond, Va., Group No. 1

D. R. Coker, Hartsville, S. C., Group No. 2

J. F. Oyster, Washington, D. C., Group No. 3

ATLANTA: District No. 6:

CLASS "C"

M. B. Wellborn, Anniston, Ala., Federal Reserve Agent and Chairman of Board of Directors.

Edward T. Brown, Atlanta, Ga., Deputy Federal Reserve Agent and Vice-Chairman of Board of Directors.

W. H. Kettig, Birmingham, Ala., Director.

CLASS "A"

L. P. Hillyer, Macon, Ga., Group No. 1

F. W. Foote, Hattiesburg, Miss., Group No. 2

W. H. Toole, Winder, Ga., Group No. 3

CLASS "B"

P. H. Saunders, New Orleans, La., Group No. 1

J. A. McCrary, Decatur, Ga., Group No. 2

W. H. Hartford, Nashville, Tenn., Group No. 3

CHICAGO: District No. 7:

CLASS "C"

C. H. Bosworth, Chicago, Ill., Federal Reserve Agent and Chairman of Board of Directors.

W. L. McLallen, Columbia City, Ind., Deputy Federal Reserve Agent and Vice-Chairman of Board of Directors.

Edwin T. Meredith, Des Moines, Ia., Director.

CLASS "A"

George M. Reynolds, Chicago, Ill., Group No. 1

J. B. Forgan, Chicago, Ill., Group No. 2

E. L. Johnson, Waterloo, Ia., Group No. 3

CLASS "B"

Henry B. Joy, Detroit, Mich., Group No. 1

M. B. Hutchison, Ottumwa, Ia., Group No. 2

A. H. Vogel, Milwaukee, Wis., Group No. 3

ST. LOUIS: District No. 8:

CLASS "C"

William McC. Martin, St. Louis, Federal Reserve Agent and Chairman of Board of Directors.

Walter W. Smith, St. Louis, Deputy Federal Reserve Agent and Vice-Chairman of Board of Directors.

John Boehne, Evansville, Ind., Director.

CLASS "A"

Walker Hill, St. Louis, Mo., Group No. 1

F. O. Watts, St. Louis, Mo., Group No. 2

Oscar Fenley, Louisville, Ky., Group No. 3

CLASS "B"

Murray Carlton, St. Louis, Mo., Group No. 1

W. B. Plunkett, Little Rock, Ark., Group No. 2

LeRoy Percy, Greenville, Miss., Group No. 3

MINNEAPOLIS: District No. 9:

CLASS "C"

John F. Rich, Red Wing, Minn., Federal Reserve Agent and Chairman of Board of Directors.

P. M. Kerst, St. Paul, Deputy Federal Reserve Agent and Vice-Chairman of Board of Directors.

John W. Black, Houghton, Mich., Director.

CLASS "A"

E. W. Decker, Minneapolis, Minn., Group No. 1

L. B. Hanna, Fargo, N. D., Group No. 2

J. C. Bassett, Aberdeen, S. D., Group No. 3

CLASS "B"

F. R. Bigelow, St. Paul, Minn., Group No. 1

F. P. Hixon, LaCrosse, Wis., Group No. 2

Norman B. Holter, Helena, Mont., Group No. 3

KANSAS CITY: District No. 10:

CLASS "C"

J. Z. Miller, Kansas City, Mo., Federal Reserve Agent and Chairman of Board of Directors.

A. E. Ramsey, Muskogee, Okla., Deputy Federal Reserve Agent and Vice-Chairman of Board of Directors.

R. H. Malone, Denver, Col., Director.

CLASS "A"

Gordon Jones, Denver, Col., Group No. 1

W. J. Bailey, Atchison, Kans., Group No. 2

C. E. Burnham, Norfolk, Neb., Group No. 3

CLASS "B"

M. L. McClure, Kansas City, Mo., Group No. 1

T. C. Byrne, Omaha, Neb., Group No. 2

L. A. Wilson, El Reno, Okla., Group No. 3

DALLAS: District No. 11:

CLASS "C"

E. O. Tenison, Dallas, Federal Reserve Agent and Chairman of Board of Directors.

W. F. McCaleb, San Antonio, Deputy Federal Reserve Agent and Vice-Chairman of Board of Directors.

Felix Martinez, El Paso, Texas, Director.

CLASS "A"

Oscar Wells, Houston, Texas, Group No. 1

E. K. Smith, Shreveport, La., Group No. 2

B. A. McKinney, Durant, Okla., Group No. 3

CLASS "B"

Marion Sansom, Fort Worth, Texas...Group No. 1
Frank Kell, Wichita Falls, Texas.....Group No. 2
J. J. Culbertson, Paris, Texas.....Group No. 3

SAN FRANCISCO: District No. 12:

CLASS "C"

John Perrin, Pasadena, Cal., Federal Reserve Agent and Chairman of Board of Directors.
Claude Gatch, San Francisco, Cal., Deputy Federal Reserve Agent and Vice-Chairman of Board of Directors.
Charles E. Peabody, Seattle, Wash., Director.

CLASS "A"

C. K. McIntosh, San Francisco, Cal...Group No. 1
James K. Lynch, San Francisco, Cal...Group No. 2
Alden Anderson, Sacramento, Cal.....Group No. 3

CLASS "B"

A. B. C. Dohrman, San Francisco, Cal.Group No. 1
J. A. McGregor, San Francisco, Cal...Group No. 2
Elmer H. Cox, Madera, Cal.....Group No. 3

Subscriptions to Stock.

Following is a table showing subscriptions to stock of Federal Reserve Banks:

National Banks, March 4, 1914.				
District No.	Fed. Resrv. Cities	No. of Banks	Capital and Surplus	Six per cent. Subscription
1	Boston	445	\$165,409,043	\$ 9,924,543
2	New York	477	343,693,437	20,621,606
3	Philadelphia	757	208,135,631	12,488,138
4	Cleveland	787	320,123,060	12,007,384
5	Richmond	475	105,055,023	6,303,301
6	Atlanta	372	77,353,221	4,641,193
7	Chicago	952	207,997,941	12,479,876
8	St. Louis	458	83,179,348	4,990,761
9	Minneapolis	687	78,382,081	4,702,925
10	Kansas City	836	93,166,912	5,590,015
11	Dallas	731	92,333,673	5,540,020
12	San Francisco ..	514	130,422,921	7,825,375
		7,471	\$1,785,252,291	\$107,115,137

Transfer of Reserves.

The following is the order of the Federal Reserve Board relative to transfer of reserves to Federal Reserve Banks, from which it will be seen that they are to be transferred in gold or lawful money:

Washington, D. C., Oct. 28, 1914.

To All Member Banks:

The Secretary of the Treasury having advised the Federal Reserve Board that formal notice of the establishment of the several Federal Reserve Banks will be given to all member banks on Nov. 16, it is necessary that arrangements be now made for the transfer of required reserves by the member banks to their respective Federal Reserve Banks. It is the desire of the Board to arrange for the actual physical transfer of the first installment in such a manner as to create the least possible disturbance to business conditions in any city or section.

It is, of course, clear that if the banks in non-reserve cities undertake to make the necessary deposit of reserves with their Federal Reserve Bank by remitting checks or drafts on banks in reserve cities (which checks or drafts can be received by the Federal Reserve Bank for collection only), there may result an unnecessarily heavy withdrawal of funds from the banks in reserve cities. In the same manner, if banks in reserve cities make remittances of checks or drafts on banks in central reserve cities, an unnecessary burden may be placed on the latter.

The deposits of reserves with Federal Reserve Banks must be made in gold or lawful money, and in order that the withdrawal of funds from the vaults of member banks may be as nearly uniform as possible, and so distributed as to relieve any particular section or sections of unnecessary burden, the Federal Reserve Board urges all banks to ship from their own vaults gold or lawful money. The Federal Reserve Banks have been authorized to assume and pay the express charges involved in making such shipments.

The foregoing suggestions also apply to payments on account of the first installment of capital stock due November 2nd.

In view of the advantage to be derived from the deposits of gold, which may be used as reserve for Federal Reserve notes it is strongly urged by the Board that deposits of reserves in the Federal Reserve Banks be made, so far as practicable, in gold or gold certificates. DUE notice of the establishment of the Federal Reserve Banks on Nov. 16 will be sent each member bank by the Secretary of the Treasury, and no transfer of reserve can be made until this is done.

Member banks of large resources will greatly facilitate the physical work of counting reserve money if they will send gold certificates in as large denominations as possible or clearing house orders calling for gold certificates or gold already counted by the clearing houses. The Federal Reserve Board appeals to the patriotic spirit of all member banks, large and small, to do their utmost in facilitating the difficult work now thrown upon the officers of the newly created Reserve banks, and to do all in their power to secure for the new system the greatest possible success from the beginning.

(Signed) H. PARKER WILLIS,
Secretary.

(Signed) CHARLES S. HAMLIN,
Governor.

Order Calls for Reserve Payments in Gold or Lawful

Money.

The above order calls for the payment of reserves in gold or lawful money, but makes no mention of the following provision in Section 19 of the Federal Reserve Act:

"Any Federal Reserve Bank may receive from the member banks as reserves, not exceeding one-half of each installment, eligible paper as described in section fourteen properly indorsed and acceptable to the said reserve bank."

Reserves.

Showing reserves held by national banks in the twelve Federal Reserve Districts, as of September 12; also showing the reserves required under the present law, the reserves required under the Federal Reserve Act, the reserves held in excess of the amount required under the old law, and the reserves in excess of the amount required under the Federal Reserve Act.

Dist. No.	Total Reserve held by banks Sept. 12, 1914 (Millions)	Total Reserve required under present law (Millions)	Total Reserve required under Fed. Res. Act (Millions)
1. (Boston)	129	110	76
2. (New York)	304	388	281
3. (Philadelphia)	175	153	105
4. (Cleveland)	154	144	95
5. (Richmond)	64	64	43
6. (Atlanta)	38	34	24
7. (Chicago)	228	203	140
8. (St. Louis)	55	55	37
9. (Minneapolis)	91	78	48
10. (Kansas City)	109	85	52
11. (Dallas)	52	42	28
12. (San Francisco) ..	117	104	67
Total	1,576	1,460	996

Dist. No.	Reserve held Sept. 12, 1914 in excess of amount required under old law (Millions)	Total reserve held in excess of amount required under new law (Millions)
1	19	53
2	24 deficit	83
3	22	70
4	10	59
5	..	21
6	4	14
7	25	88
8	..	18
9	13	43
10	24	57
11	10	24
12	13	50
Total 116		580

Figures have been compiled showing that the reserve under the present law is \$1,460,711,345, while under the Federal Reserve Act the total requirement will be \$995,792,260, thus releasing \$464,919,076 of the reserves held at the time of the last call of the Comptroller, Sept. 12, 1914.

Cash Holdings and Requirements.

The following table shows the total cash held by the national banks in the twelve reserve districts as of September 12, 1914, the amount of cash which the national banks will be required, under the Federal Reserve Act to hold in their vaults and with the Federal Reserve Banks, and also shows the total cash released.

Districts	Total cash held Sept. 12, 1914	Cash required to be held in vault F.R. Bank	Cash required to be held with F.R. Bank vault or F.R. Bank
	Millions	Millions	Millions
1 Boston	\$57	\$31	\$14
2 New York	307	98	97
3 Philadelphia	74	43	19
4 Cleveland	73	59	17
5 Richmond	30	18	8
6 Atlanta	18	10	4
7 Chicago	144	52	38
8 St. Louis	35	14	10
9 Minneapolis	37	10	9
10 Kansas City	42	21	10
11 Dallas	26	12	5
12 San Francisco	69	27	12
Total	\$902	\$384	\$343

Districts	Total cash required	Total cash released
1 Boston	45	12
2 New York	257	50
3 Philadelphia	62	12
4 Cleveland	56	17
5 Richmond	26	4
6 Atlanta	14	4
7 Chicago	107	37
8 St. Louis	29	6
9 Minneapolis	28	9
10 Kansas City	31	11
11 Dallas	17	9
12 San Francisco	39	20
Total in Millions	711	191

War Revenue Taxes Under Act of October 22, 1914, and When Effective.

The revenue act which was approved by the President and went into operation October 22, 1914, imposes internal revenue taxes as follows:

Beer, ale, porter and other similar fermented liquors, \$1.50 per barrel of 31 gallons. Domestic or imported still wines, 1 cent a pint. Domestic and imported champagne and other sparkling wines and artificially carbonated wines, 20 cents a quart. Wine spirits, 55 cents a gallon. All liqueurs and cordials, 3 cents a pint. The taxes on this list of articles went into effect October 22, 1914.

Taxes Effective November 1, 1914.

The following special taxes become operative November 1, 1914:

Bankers, 1 dollar for each one thousand dollars of capital, surplus and undivided profits. Brokers dealing in stocks, bonds, exchange, bullion, notes and other securities, \$30. Pawnbrokers, \$50. Commercial brokers, \$20. Custom house brokers, \$10. Theatres having a seating capacity of not more than 250, \$25, and for greater seating capacity the rate is graduated up to \$100, where the seating capacity is more than eight hundred. Halls or armories used occasionally for concerts or theatrical representations are exempted. Circuses, \$100. Proprietors of all other exhibitions or shows, \$10. Chautauquas, lectures, lyceums, agricultural or industrial fairs and exhibitions held under religious or charitable associations are exempted from the payment of any tax. Bowling alleys and billiard rooms, \$5 for each alley or table. Commission merchants, \$20.

Dealers in leaf tobacco whose sales do not exceed 50,000 pounds, \$6. Those whose sales exceed 50,000 pounds and do not exceed 100,000 pounds, \$12. Where the sales exceed 100,000 pounds, \$24. Dealers whose sales do not exceed 1000 pounds are exempt. Dealers in tobacco whose annual sales exceed \$200, \$4.80 for each store or shop.

Manufacturers of tobacco pay taxes ranging from \$6 where the annual sales do not exceed 100,000 pounds up to \$2,496, where the annual sales exceed twenty million pounds. Manufacturers of cigars are required to pay taxes ranging from \$3, where the sales do not exceed 100,000 cigars annually, up to \$2,496, where the sales exceed forty million cigars yearly. Manufacturers of cigarettes pay the minimum rate of \$12, where the annual sales do not exceed one million cigarettes up to a maximum of \$2,496, where the annual sales exceed one hundred million cigarettes.

Taxes Effective December 1, 1914.

The provisions of the act as to the following named taxes become effective on December 1, 1914:

Bonds, debentures, or certificates of indebtedness issued by any association, company or corporation, on each \$100 of face value or fraction thereof, 5 cents, and on all sales or agreements to sell shares or certificates of stock 2 cents for each \$100 of face value or fraction thereof. Upon each sale or agreement to sell any products or merchandise at any exchange, or board of trade, 1 cent for each \$100 in value. Promissory notes and for each renewal of the same, 2 cents for each \$100.

Railroads, steamboat companies, carriers and express companies are required to issue bills of lading or manifests covering all shipments, and to attach thereto a stamp of the value of 1 cent. Newspapers shipped in bundles are not subject to this provision but newspaper publishers

are required to make report of the number of shipments of general bundles each month and to pay a tax of 1 cent on each shipment. Newspapers sent to any one point or to different points by the same train or conveyance when enclosed in one general bundle at the point of shipment are to be regarded as one shipment. This report, however, is not required where the newspapers are delivered within the county in which they are published.

Telegraph and telephone companies are required to make a monthly report of the number of dispatches or messages transmitted by them for which a charge of fifteen cents or more was made, and such companies shall collect from the person paying for the message or dispatch a tax of 1 cent in addition to the regular charges, and the company is required to pay the same to the Internal Revenue Collector for that district.

Indemnity bonds, 50 cents. Certificates of profit, 2 cents for each \$100 face value. Certificate of damage or otherwise, issued by port warden or marine surveyor, 25 cents. Other certificates required by law, 10 cents. Broker's note or memorandum of sale of goods, merchandise, stocks, bonds, etc., 10 cents. Deeds of conveyance where the value of the property exceeds \$100 and not exceeding \$500, 50 cents, and for each \$500 in excess of that amount 50 cents. This provision, however, exempts from the tax any instrument given to secure a debt. Entry of goods at Customs House not exceeding \$100 in value, 25 cents; exceeding \$100 and not exceeding \$500, 50 cents; exceeding \$500, \$1. Entry for withdrawal of goods from customs bonded warehouse, 50 cents.

All policies of insurance on property one half of one cent on each dollar of premium paid. Purely co-operative or mutual fire insurance companies carried on by the members thereof for the protection of their own property, and not for profit, are exempted from this provision as well as policies of reinsurance, life, personal accident, health insurance, workman's compensation insurance when not conducted for profit. Obligations guaranteeing validity of bonds or other obligations when issued by any state, county, municipal or other public body or guaranteeing titles to real estate or mercantile credits, one-half of 1 cent for each dollar of premium paid or fraction thereof. Vessel passage ticket to a foreign port if costing not exceeding \$30, \$1; costing more than \$30 and not exceeding \$60, \$3; costing more than \$60, \$5. Passage tickets costing less than \$10 are exempt.

Power of attorney or proxy for voting at any election for officers of any incorporated company, except religious, charitable or literary societies, or public cemeteries, 10 cents. Power of attorney to convey real estate or to rent or lease the same, to receive or collect rent or to sell or transfer any stocks, bonds, scrip, or for the collection of any dividends or interest thereon, 25 cents. The protest of every note, bill of exchange, acceptance, check or draft, or any marine protest, 25 cents. Every seat sold in a palace or parlor car, and every berth sold in a sleeping car, 1 cent, to be paid by the company selling the same. On perfumery and cosmetics, the tax is one-eighth of a cent when the price or value is 5 cents, the tax increasing according to the increased value of the contents of the container. Chewing gum, 4 cents per box, where the value is not more than \$1. For each additional dollar 4 cents. A drawback is provided for perfumery, cosmetics, chewing gum, etc., equal to the amount of the tax paid when the same is exported.

Expires by Limitation December 31, 1915.

All of the provisions of this act expire by limitation on December 31, 1915. It is estimated the Act will add about \$90,000,000 to the Government's revenues in the year.

State Banks as Members of the Federal Reserve System.

Dr. H. Parker Willis, Secretary of the Federal Reserve Board, speaking at Richmond before the American Bankers Convention rendered a decided service to the country in pointing out the kind of banks which ought to become members of the Federal Reserve System. This able address, which

shows that the system is essentially for commercial banks, is given in full below.

Mr. Chairman and Gentlemen: The subject assigned me for this meeting is "The Future of State Institutions under the Federal Reserve Act." The subject is a broad one because the theory of the Federal Reserve Act is that there should be a union of all banking institutions. Instead of confining the operation of the law to national banks, as was at first proposed by some thinkers, its scope was finally enlarged so that today almost any institution may become affiliated with the Federal Reserve system by complying with the provisions applicable to it. The legislation as it has developed aims to create a means of unifying the reserves of the whole nation, in order that the whole banking system may be strengthened where it is weak by reliance upon the aid of the stronger portions of the country when need may be, while those parts of the nation which may have excess funds are enabled to employ them profitably by placing them at the disposal of other portions of the country for investment in the paper which may offer itself.

In another great and important way the Federal Reserve Act as now framed contemplates the inclusion within its range of as many of the banking institutions of the country as can be induced to participate. I refer to the question of domestic exchange. The Act provides for unifying domestic exchange methods. Such unification calls for the aid of all the banks of the country, if it is to be thoroughly successful and practical. Both as regards the attainment of genuine banking strength, therefore, and as regards uniformity of domestic exchange rates, the Federal Reserve Act distinctly contemplates and desires the inclusion of all institutions within its scope in the way that I have just indicated. I might go further and suggest a variety of considerations bearing upon this subject and showing the reasons why and the ways in which such affiliations is contemplated by the law. In the short time at my disposal, however, it will not be possible to cover the whole ground, and I shall have to confine myself to a few of the more important aspects of the subject.

Assuming, what is evident from the Act and from all that has been said, that State institutions are freely welcomed to the Federal reserve system, and assuming further that, as I have just intimated, the system cannot attain its full fruition and success unless the great majority of the banks of the country are gathered into it, let us consider the practical question presented to the State banks of the country.

Requirements for Membership.

First of all, what is there to prevent State banks from entering the Federal reserve system? The Act provides that every such bank shall comply with the requirements that are imposed upon national banks with regard to capitalization in relation to population, and in regard to the amount of reserves maintained. Such State banks must, moreover, conduct themselves in a general way on the basis of banking management that is laid down for national institutions under the Federal Reserve Law, although it may be said in passing that there is nothing in that law to interfere with those banks which are organized under State law, or to prevent them from taking advantage of those broader provisions of legislation which are found on the statute books of some States. But, in a general way, State banks which enter the Federal Reserve system must live up to certain requirements as to capital and reserves, and must submit to examination on the same basis as the national members of the system. How does this affect the State banks?

It is undoubtedly true that in some states the standards set by law on the three points I have just mentioned are lower than those of the Federal Reserve system. We can not, however, get a fair test of the case by merely noting that there is a difference between State and National legislation in this regard. The real question is not whether there is a difference,—that is to say, whether a State bank can if it chooses get down to a lower basis of management than that prescribed by the National law,—but whether the basis prescribed by National law is unduly high or severe. I do not think that a consideration of the terms of the law will lead any one to think so. As is

well known, the Federal Reserve Act, during the later stages of its development in Congress, was modified in the sections relating to reserves so that as the thing stands, a bank in a central reserve city is merely obliged to keep eighteen per cent. of its demand deposits and five per cent. of its time deposits, one-third of the said eighteen per cent. to be in its vaults in cash, seven-eighths in the Federal Reserve Bank, and the balance either in its own vaults or in the Federal Reserve Bank. A bank in a reserve city has to hold fifteen per cent. of the aggregate amount of its demand deposits and five per cent. of its time deposits, it being necessary that one-third of the fifteen per cent. referred to shall be held in cash in its own vaults, while six-fifteenths, or two-fifths, are placed in the Federal Reserve Bank of its district, the remainder being optional. In country banks it is necessary that a twelve-per-cent. reserve shall be maintained against demand deposits, with five per cent. against time deposits, while of this twelve per cent. only one-third, or four-twelfths, is ultimately to be carried in cash, and in the Federal Reserve Bank five-twelfths, the balance being optional as between the bank's own vaults and the Federal Reserve Bank.

Comparison of these figures with reserve requirements in the several States would be interesting, but time will not permit me to present a complete tabular view of the situation. Suffice it to say, therefore, that the reserves mentioned in the Act are not as great as those which are required of banks in the States whose laws have been best framed and are best executed. We must, therefore, reach the conclusion that the reserve requirements of the new system are not such as should prevent any bank from entering it. If legislation which is now pending before Congress should be put into effect by the Board, these reserve requirements would be made even lighter than those contained in the Federal Reserve Act itself.

The Principal Obstacles.

What I have just said may be considered as bearing primarily upon the case of a State bank which is just organizing, has not become involved in any business transactions or complications, and is considering for the first time the question whether it shall affiliate itself with the Federal Reserve system or not. But, as a practical matter of fact, such banks are few in number. The question must be discussed from the standpoint of the State banks which have been in existence for years past, and which are active, going concerns, their funds involved in various transactions, and their credit committed to the support of various enterprises. What of such institutions? In a general way, I may say that it has been found that the two principal obstacles to the entry of State institutions into the Federal Reserve system are as follows:

- (1.) The existence of a large element of real estate loans in the portfolios of the institutions;
- (2.) The existence of what are called "excessive loans," by which is meant loans to single persons or individuals, greater than the amount permitted under the National Banking Law.

It has been rightly assumed by the State institutions that they ought to eliminate these two grounds of criticism if they expect to enter the system. A good many have suggested that they be given a reasonable amount of time to comply with the requirements of the system, it being recommended that such time should include a period ranging from six months to three years. It is probable that a good many institutions could, if they chose, get ready to enter in much less than a year, while there are others that could not successfully prepare themselves without a much longer period than that.

Some able bankers have told me that if they were given a very reasonable extension of time within which to bring their assets into conformity with the requirements of the National law and of the Federal Reserve Act, there would be no doubt that they would enter the system in large numbers, either at once, or as soon as the new banks are placed in practical operation. Whether they would do so or not, is, of course, simply a matter of opinion, but in the absence of definite information on the subject, it may be assumed that they would do so, since this is manifestly the view of many able State bankers who are entirely independent of one another and who come from sections

of the country so widely separated that it can not be assumed that they have merely taken their ideas from one another.

If it be supposed that the opinion thus expressed is approximately correct, then the question arises whether the Federal Reserve Board has the right to, or having the right ought to, grant the concession that is called for. The Board has taken no action on this matter, and no one can or ought to try to predict what is likely to be done. Exactly how far its powers would permit it to go may be an open question. Without seeking to pass upon questions which are still sub judice, it can only be stated, therefore, that all thoughtful men, studious of the interests of the banking community and of the reserve system, do undoubtedly desire to see a large number of State banks included in the list of member institutions. Personally, it is my very strong hope and belief that a large number of them will be thus brought in, and under conditions which they can reasonably be expected to submit to during the transition period.

It will be observed, however, that all that has been said thus far has been based upon the assumption that the banks thus seeking to enter the system are banks of the same general kind or description as those which now constitute the rank and file of the member banks today. That is to say, it is assumed that they are commercial banks. On even that point I think there is some confusion of thought in some parts of the country, and possibly among certain groups of bankers elsewhere.

Essentially a Commercial Banking System.

The Federal Reserve system is essentially intended as a commercial banking system. It is therefore not desirable that any bank should enter the system unless it is doing or intends to do a commercial business. All those institutions which are engaged in operations that render it unnecessary or undesirable for them to comply with the commercial requirements, are, ipso facto, outside the range of banks that will be much benefited by membership. Although, technically speaking, every State banking institution willing to comply with the law may become a member of the Federal Reserve system, it is not desirable that those should do so whose business is essentially of a different type from that of the commercial banks of the country and which are, consequently, either forced to make a sacrifice, thereby subjecting their customers to discomfort or inconvenience in order to come in, or which are in some other way subjected to difficulty as a result of it. In a word, no State institution ought to think of entering the Federal Reserve system unless its business is of a distinctly commercial type. Granted that, there is every reason why it should come in, but granting that its business is of a different type, the case changes.

It seems to have been supposed by some banks that they must enter the Federal Reserve system in order to get the benefit of it. That is only partially true. If the Federal Reserve system attains the objects for which it is intended, it will do so because of the fact that it modifies the whole banking situation. It will provide a market for commercial paper and will tend to bring discount rates to a degree of uniformity that has never before been possible. When the conditions are such throughout the country that commercial paper of known value can be marketed, and when, through the development of the principle of combined reserves, panic dangers are largely eliminated, every institution, whether a member of the reserve system or not, will get the benefit of the improved situation. Of course, this result can not be reached unless a sufficient number of commercial banks are joined together in the system. Enough are already members practically to insure this state of things, but the assurance will become more and more distinct as more and more of the commercial banks join. Should they all enter, the system will gain no additional strength by the incorporation of members whose business is of a primarily investment character, even though they technically comply with the reserve requirements. Neither will the institutions themselves profit particularly by such membership. They will get the advantages of the system in any case by being enabled to borrow under more favorable conditions from the member banks which have rendered their own assets more liquid through their own membership in the system,

and have thereby enabled themselves readily and regularly to afford such aid as may be asked for by their banking customers. When we hear the statement, therefore, that it is to be hoped that all institutions will ultimately become members of the Federal Reserve system, the wish must be regarded as based on enthusiasm rather than on knowledge.

In what I have said thus far I have merely outlined the conditions as I think they must appear to a business man. But your Committee has also asked me to consider the probabilities of the future. This leads into the realm of prophecy, and I am thoroughly aware of the dangers it involves. It is, however, possible to express a few opinions in regard to the general situation. At the present time, a moderate number of State institutions of all kinds have affiliated themselves with the system, including both banks and trust companies. Without giving exact figures it is fair to say that thus far only a very small percentage of State institutions has seen fit to join. Two questions arise in this connection, the one why more have not joined; the other whether more will join in the near future. Many persons regard the smallness of the number of State institutions that have already joined as indicating that the system does not appeal to State banks. I have already indicated some reasons for thinking that this should not be the case, and in fact, for believing that it is not. It may be inquired, what then is the reason why so few State institutions have become members? In general, my answer to this would be that the State institutions have not joined simply because they did not have to do so. The banker, above all other men, is a conservative. His function is that of supplying conservatism in business. He insures credit; he guarantees that other men's judgments are more or less correct. If left to himself, he will move slowly and look before he leaps, and his mistakes will be those which grow out of adherence to routine rather than those which are due to rashness, haste and desire for change. A good many State bankers who have not had the compelling motive for coming into the system at once that was felt by the National banks, have therefore waited to see how the situation would develop. As nearly as I understand, many are now on the margin of doubt. If conditions open favorably, they will naturally be attracted into the system in considerable numbers; if the reverse, they will probably prolong their period of waiting. Believing as I do that the Federal Reserve system will be made to operate successfully from the start, my disposition is to think that there will, at an early date, be many new members who will come from among the State banks, and that they will join within a comparatively short time after the banks are actually open. Assuming, however, that such should not prove to be the case, and that no rapid movement of State institutions into the system occurs—what then?

State Banks Which do not Join.

It is probable that State bankers who have what to them seems a good reason for postponement of action, will continue to find such reasons for some time to come and will not bestir themselves to join the system until a very distant, fresh motive is afforded to them for so doing. What will that motive be? It seems to me that the motive is hardly likely to be found in the mere lack of opportunities for rediscount. If the rediscount plan operates as it is expected to, State banks will get the benefit of it indirectly, by finding themselves able to dispose of their paper on favorable terms in the open market without necessarily going to a Federal Reserve Bank for their accommodation. It is rather to be expected that the motive tending to lead State bankers to enter the system will be found in the clearing function. If the clearance provision in the Federal Reserve Act proves successful, it may be expected that business will be transferred to the member banks by those who will appreciate the immense advantage open to them as a result of the provisions freeing them from the oppressive conditions to which they have been subjected in regard to domestic exchange. It will be imperative for State banks to place themselves upon as good a foundation for appealing to the public in this regard as that upon which the member banks rest. We may say, therefore, that the early entry of State banks into the system depends in a very large measure on the way in which the

clearance feature is handled and the extent to which the clearing function is taken over by the Federal Reserve Banks under instructions from the Federal Reserve Board. Provided that this work is undertaken courageously and successfully, the result will be to enlarge very greatly the membership of the Federal Reserve system. This opinion I advance simply as a personal opinion and under the restrictions and limitations already outlined. I do not pretend to foresee or predict the future; I analyze only the situation as it appears to me today.

What Are the Systems Limitations.

Another question of longer range, and of equally great moment, is this:—Will the Federal Reserve system tend to enlarge the National system of banking, or to limit it? In other words, will the future of State institutions under the Federal Reserve Act be a future of gradual conversion into National banks, or will the State institutions find their ranks gradually enlarging until ultimately the banking system of the United States consists of a body of banks organized under State law and federated together in twelve Federal Reserve institutions, the National banks being either extinct or on the road to extinction? In much of the banking discussion of the past two or three years, it has been stated that the drift of things was toward the elimination of the National bank. This was on the ground that with the bond basis for currency issue definitely removed, there would be no particular reason why a National bank should exist, while with the privilege of membership in the Federal Reserve system open to State banks, it would be largely a matter of indifference under which system an institution might organize. At times it has seemed to me that those who thus argued had a rather substantial basis for their predictions. And yet since the adoption of the Federal Reserve Act, the National system has grown rapidly. During that time there have been organized about 164 institutions. And this rate of growth is essentially the same as in recent years. There seems to be little disposition on the part of already established banks to leave the system, but on the contrary, the process of new organization continues as I have noted. It may be inquired whether this is not due to the fact that long experience has not been had with the new system, so that men naturally tend to follow in the groove marked out by custom, even though there are factors working against that course. Were this question to be answered in the affirmative, we should have to conclude that the probable relation between National and State banks under the Federal Reserve system and the relative growth of the two groups would be a matter for future determination as to which no positive opinion could be expressed today. To some extent this is undoubtedly the situation. Some States have already been making vigorous efforts to hold their own banks under State law. An example is seen in the case of the State of New York which has recently liberalized its banking Act, shaping a piece of legislation which some believe is more favorable to satisfactory banking than the National Act as modified by the Federal Reserve Act. Observe, however, that this action has been taken in order to prevent State banks from converting to National. The problem before us just now is the converse of that, and is, whether there will be a drift of National institutions into the State system. It would seem that there is good ground for believing that as a result of banking discussion and largely in consequence of the unifying influence of the Federal Reserve system, there will be a much stronger drift than heretofore toward standardization of bank examinations and of banking legislation. The Federal Reserve Act will have a very powerful influence in bringing about uniformity of conditions in examining banks and in controlling them generally. If such uniformity be rightly developed, may it not be supposed that banks already holding either a State or a National charter will continue as they are now? May it not also be assumed that, there being less variation of the conditions under which the two systems are operated, the choice whether to enter a State or National system will be of relatively trifling importance, so that banks will enter one or the other in very much the same ratio as at present, or perhaps in substantially proportionate

numbers?

It seems to me that this is the direction in which conditions are drifting looking at the matter from a long-range standpoint. So long as the State banks are allowed to become members in the Federal Reserve system, and so long as the effort to standardize National and State banking legislation is in progress, I do not see why one set of conditions should not offset the other, and each system continue fairly well to hold its own. But in all this, of course, it is recognized that we are speaking of the future, nothing positive can be said, and no one can reasonably dogmatize about the probable outcome. Conditions may suddenly change, as they have in the past, and if they do, a new and unexpected drift may at any time be given to the course of banking development.

From what has been said, you will see that I am not inclined to speak very confidently or positively of the future on any of the points under discussion. In fact, the present is of more importance than the future, because what happens later is the direct outgrowth of what is done today. For the present the problem is perfectly clear. It is, from the standpoint of the Federal Reserve system, to extend its borders as widely as it legitimately can among commercial institutions, bearing in mind and having due regard to the requirements of commercial banking, and always with the desire to take in only sound and well-managed institutions, as well as those whose business is of a type that conforms substantially with the provisions of the law. From the standpoint of the banks, it will evidently be worth while for State institutions to conform to the reasonable requirements of the Federal Reserve Act in the matter of capital, reserves and examination, if by so doing they can get any real or substantial advantages for themselves. That they can get such advantages, not merely in rediscount but also in clearing their items and in performing various other banking operations, and that they can materially advantage themselves and their customers by becoming members of the Federal Reserve system, is, I am sure, the general belief of those who are most familiar with National and State laws. Uniformity of management, simplicity in domestic exchange, ability to bring aid to those institutions or sections where aid is needed and to afford opportunities for fluid and legitimate investment to those parts of the country which have superabundant funds, will be promoted by the extension of the membership of the Federal Reserve system. When all has been said and when every consideration has been taken into account, I believe that the thoughtful and non-partisan banker will conclude that the question of membership is one that goes beyond the bounds of immediate business profit. In the course of my remarks today I have endeavored to consider the problem with some little detail from the business standpoint. But banking on its higher side is, in my view of the case, a profession. It has its professional standards and its professional requirements. It performs an important public function. The banker must, therefore, consider not only what dividends he can make for his stockholders and what losses he can prevent them from incurring, but he must also think of the fulfillment of this public function in the best way. In the United States we have long suffered from incompatibility and divergence of banking methods. An opportunity is now given for standardization and for improvement of practice. Should not the State banks of the country who have so long borne an honorable and distinct part in the promotion of the country's commercial welfare, and many of whom have charters running back for a long period prior to the formation of the National banking system, stand ready to join in the effort to further the success and insure the greater soundness of banking methods in the United States? They can, if they will, attain these objects by affiliating themselves with the new system and by helping, through their influence and example, to make it a success. It is, I think, to be hoped that they may look at the question from some such standpoint as this, and in consequence, give their direct aid and support to the Federal Reserve system, as well as draw aid and support from it,—becoming members of it and undertaking to give the fullest possible effect to the beneficial ideas embodied in the Act of 1913.

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